CIC Insurance – FY2012 Results Note

15th April, 2013

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Summary

We are **NEUTRAL** on CIC Insurance.

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We expect growth in gross written premium to continue in the mid term mainly driven by expansion, innovative products, micro-insurance and the use of technology in the year 2013.

Key highlights to note include:

- ✓ Gross written premium rose by 33.8% y-o-y from KES 6.7 billion in FY2011 to KES 9.0 billion in FY2012.
- ✓ Investment income and commissions earned grew by 47.0% and 33.6% to KES 790 million and KES 201 million respectively.
- ✓ Net claims and policyholder benefits increased by 47.5% to KES 4.6 billion in FY2012.
- ✓ Total assets grew by 26.5% to KES 14.1 billion in FY2012
- ✓ The group plans to expand into South Sudan and Uganda this year (FY2012).

	FY2011	FY2012
Share Price (KES)		5.85
Net Income (KES '000)	584,214	1,388,215
Return on Equity (ROE)	13.6%	25.4%
Return on Assets (ROA)	7.1%	11.7%
P/E x	21.83	9.18
P/B x	2.97	2.33
EPS	0.27	0.64
BVPS	1.97	2.51

CIC Insurance Earnings Update

Income Statement (KES '000)	FY2011	FY2012	% Change
Gross written premium	6,735,721	9,009,893	33.8%
Gross earned premium	6,116,421	8,168,717	33.6%
Outward reinsurances	(772,125)	(880,537)	14.0%
Net earned premiums	**5,344,296**	**7,288,180**	**36.4%**
Investment income	537,928	790,514	47.0%
Commissions earned	150,681	201,282	33.6%
Other income	(12,865)	622,017	4935.00%
Total income	**6,020,040**	**8,901,993**	**47.9%**
Net Claims and Policyholders benefits	3,149,844	4,644,801	47.5%
Commissions payable	557,373	641,300	15.1%
Operating and other expenses	1,505,793	1,956,564	29.9%
Total Expenses	**5,213,010**	**7,242,665**	**38.9%**
Share of results of associate	**(19,816)**	**(9,723)**	**50.9%**
Profit before tax	**787,214**	**1,649,605**	**109.6%**
Profit after tax	**584,214**	**1,388,201**	**137.6%**
Total comprehensive income for the year	**597,765**	**1,402,983**	**134.7%**
Earnings per share	**0.40**	**0.64**	**60.0%**

Balance Sheet (KES '000)	FY2011	FY2012	% Change
Shareholders' funds	**4,294,142**	**5,470,960**	**27.4%**
Assets			
Investment in associate	80,184	70,447	-12.1%
Investment properties	1,306,744	2,554,472	95.5%
Receivables arising out of Direct insurance arrangements	704,490	1,144,634	62.5%
Equity investments	144,710	203,377	40.5%
Government securities	2,491,569	2,101,355	-15.7%
Deposits in financial institutions	2,842,970	3,727,723	31.1%
Total Assets	**11,120,796**	**14,069,551**	**26.5%**
Liabilities			
Actuarial value of policyholders liabilities	1,273,183	1,650,108	29.6%
Insurance contract liabilities	2,595,699	3,197,799	23.2%
Unearned premiums reserve	2,158,409	3,092,113	43.3%
Total Liabilities	**6,826,654**	**8,598,591**	**26.0%**
Net Assets	**4,294,142**	**5,470,960**	**27.4%**

Ratio Analysis	FY2011	FY2012
Loss Ratio (Net claims/Net earned premiums)	58.9%	63.7%
Expense Ratio (Operating Expenses/Net earned premiums)	28.2%	26.8%
Solvency ratio (Net Assets/Net earned premiums)	80.4%	75.1%
Profit Before Tax Margin	14.7%	22.6%
Return on Equity (ROE)	13.6%	25.4%
Return on Assets (ROA)	7.1%	11.7%

Income Statement Analysis

Gross written premium rose by 33.8% y-o-y

Gross written premium rose by 33.8% y-o-y from KES 6.7 billion in FY2011 to KES 9.0 billion in FY2012. The Compounded Annual Growth Rate (CAGR) of gross written premium is 35.9% from FY2007 to FY2012 while the CAGR of gross earned premium is 33.0% from FY2007 to FY2012. The rise in gross written premium could be attributed to acquisition of new business.

Underwriting Profit	FY2008	FY2009	FY2010	FY2011	FY2012
Net earned premium	1,976,718	2,462,241	3,549,766	5,344,296	7,288,180
Total Claims & Benefits Payable	(1,217,974)	(1,488,467)	(2,007,214)	(3,149,844)	(4,644,801)
Commissions earned	51,137	57,926	64,044	150,681	201,282
Commissions payable	(209,918)	(214,646)	(302,088)	(557,373)	(641,300)
Operating & other expenses	(574,501)	(740,692)	(1,027,995)	(1,505,793)	(1,956,564)
Underwriting profit/ (Loss)	**25,462**	**76,362**	**276,513**	**281,967**	**246,797**

Steady growth in underwriting profit

The group has posted steady growth in underwriting profit over the last five years with a CAGR of 76.4% from KES 25 million in FY2008 to KES 247 million in FY2012. This was mainly boosted by steady gains in net earned premium and commissions earned which grew at a CAGR of 39.6% and 40.9% respectively.

Investment income increased by 47.0%

Investment income and commissions earned grew by 47.0% and 33.6% to KES 791 million and KES 201 million in FY2012. Total income as a result grew by 47.9% to KES 8.9 billion in FY2012 from KES 6.0 billion in FY2011.

Net claims and policyholder benefits increased by 47.5%

Net claims and policyholder benefits increased by 47.5% to KES 4.6 billion in FY2012 from KES 3.1 billion in FY2011. Consequently, the loss ratio (net claims/net earned premium) rose to 63.7% in FY2012 from 58.9% in FY2011.

Commissions payable increased by 15.1%

Commissions payable increased by 15.1% to KES 641 million in FY2012. Operating and other expenses increased by 29.9% from KES 1.5 billion in FY2011 to KES 1.9 billion in FY2012. The expense ratio, (operating expenses/net earned premium), however decreased to 26.8% in FY2012 from 28.2% in FY2011.

Share of results of associates reduced the loss by 50.9% from KES 19 million in FY2011 to KES 9 million in FY2012. As at December 2011, the group had a holding of 26% in Takaful Insurance of Africa Ltd, the first fully fledged Shariah compliant insurance company.

Balance Sheet Analysis

Total assets grew by 26.5%

Total assets grew by 26.5% to KES 14.1 billion in FY2012 from KES 11.1 billion in FY2011.

Investment in associate dropped by 12.1% to KES 70 million while investment properties increased by 95.5% to KES 2.5 billion in FY2012.

Receivables arising out of direct insurance agreements edged up 62.5%

Receivables arising out of direct insurance agreements edged up 62.5% to KES 1.1 billion in FY2012 from KES 704 million I FY2011.

Equity Investments edged up by 40.5% to KES 203 million in FY2012 while government securities dropped by 15.7% to KES 2.1 billion in FY2012.

Total liabilities grew by 26.0% to KES 8.6 billion in FY2012 from KES 6.8 billion in FY2011.

Actuarial value of policyholders liabilities grew by 29.6% to KES 1.7 billion in FY2012 while insurance contract liabilities grew by 23.2% to KES 3.2 billion in FY2012.

Total Equity increased by 27.4% to KES 5.5 billion in FY2012 from KES 4.3 billion in FY2011.

Growth prospects

Plans to expand into South Sudan and Uganda this year

- ✓ **Regional expansion:** The group plans to expand into South Sudan and Uganda this year. The group is expected to leverage on ther strategic partnership with Co-operative Bank in South Sudan. The group is to have a 69% holding in the subsidiary in South Sudan and a 40% equity investment with Uganda Cooperatives Savings and Credit Union (UCSCU). The group also intends to expand to Tanzania and Malawi next year (FY2013).
- ✓ **Micro-insurance:** CIC insurance views this as an imperative in the quest to cover a larger percentage of the uninsured. New endowment products are more appealing to the low-income clients.

Customers are now able to pay premiums through mobile phones

- ✓ **Technology:** Technology is increasingly being used to reach target customers who reside in rural and semi-urban areas. Customers are now able to pay premiums through mobile phones and access smart-cards for health. The group plans to use technology to diversify distribution channels.

CIC Asset management has KES 2.1 billion in Assets under Management (AUM)

- ✓ **Asset management:** CIC Asset Management Limited is a fairly new subsidiary that has good potential for growth and contribution to the bottom line. It has KES 2.1 billion in Assets Under Management (AUM). Fees and commissions for FY2012 were KES 88 million while Profit before Tax stood at KES 8 million in FY2012.
- ✓ **Bancassurance:** During FY2012, the total contribution of bancassurance to gross premiums stood at KES 1.2 billion. We see this as a growth driver given that the insurer formed several new partnerships with other banks during the financial year under review.

Outlook

We expect growth in gross written premium to continue in the mid term mainly driven by expansion, innovative products, micro-insurance and the use of technology. At a PE of 8.91x, it is significantly higher than the sector average of 6.88x and looks expensive at the current price of KES 5.80 (10/4/2013). We are therefore **NEUTRAL** on CIC insurance.